

MEMORANDUM

TO: Rosalind Helderman
FROM: Cuccinelli For Governor Campaign
DATE: June 27, 2013
RE: Inquiry On Star Scientific

Per your inquiry, the campaign is providing the following information, which has been provided and verified by the candidate, his financial adviser and current and former members of the Attorney General's Office.

General, Key Facts

- Ken never discussed any Star Scientific stock purchases or sales with Jonnie Williams at any point in time.
- All of Ken's stock purchases were made on the open market.
- Ken was never involved in any private placements of stock.
- Jonnie Williams never mentioned his company's tax suit (or its plans for bringing a suit) to Ken; he generally groused to Ken at one point, in person, about his disagreement with the tax department that had existed since 2002.
- Ken did not become aware of the Star Scientific tax suit until March 2013, when the first media inquiry about the suit came in from the AP.
- Ken sold 1,500 shares of Star Stock in two batches at the end of June and the first week of July 2012 in order to free up capital for personal expenses that were due shortly thereafter. Ken's financial adviser sold the stock in two batches simply as a function of executing the sales instruction. Ken instructed his financial adviser to sell the full amount of shares at a certain price but initially—on June 29—was only able to find a buyer for 100 of the 1,500 shares at that price. He sold the remaining 1,400 shares a few days later, on July 2, when another buyer arose. All sales took place on the open market and both batches were sold pursuant to a single standing sales instruction.
- Upon selling 1,500 shares in June/July 2012, Ken still owned 7,160 shares—that's 2,100 more shares than his original purchase of 5,060 shares in October 2010.
- Ken ultimately sold all of his Star holdings in April 2013 upon the counsel of his financial adviser.
- Ken learned about the existence of the federal securities investigation into Star in late September 2012 when his staff briefed him on it. This was prior to the public announcement by the company of the investigation, so during that time, Ken felt he couldn't make trades with his own holdings and took no action until the investigation was public.

AG's Knowledge of Allegations Brought To the OAG By Schneider's Attorneys

- Ken first learned of Schneider's allegations involving Jonnie Williams and Governor McDonnell in late September 2012.
- While these allegations were first brought to attorneys in the Attorney General's Office in March 2012, the Chief Deputy Attorney General at the time immediately "walled off" Ken from the Schneider case because he was aware that Ken had stayed at Williams' house during the initial transition into the office during the beginning of 2010.
- The CDAG also directed all attorneys involved in the Schneider case to maintain the "walling off" until further notice.
- The walling off was maintained until August 2012 when the CDAG identified Williams as a person with some potential involvement in Mr. Schneider's case. No other details were provided to Ken until late September 2012.
- Ken was briefed internally about the full details of the chef's allegations and Star-related issues for the first time over the course of two meetings in late September and early October.
- These revelations compelled Ken to look back at his own stock transactions and disclosures related to Star, which is when he found the underreporting of the stock.

- The reason Ken initially neglected to report his Star holdings on his 2012 statement of economic interest is because when filling out the form each year, Ken's starting point is the previous year's filings. Because the Star holdings weren't reported the previous year, and because Ken didn't pay attention to the change in the value of the stock at the time of filing, he missed the item. Furthermore, when filling out that year's SEI, Ken had completely forgotten the second (Sept. 2011) stock purchase, which would have put him over the \$10,000 threshold.
- At no point did Ken discuss Schneider's allegations with Jonnie Williams or vice versa.

Questions Involving Specific Trips and Amended Disclosures

- As has been widely reported, though Ken amended his 2012 statement of economic interest after he realized his Star holdings exceeded the \$10,000 threshold, there were still a few Star-related gifts and trips over his tenure as Attorney General that were not reported.
- These omissions were all inadvertent and the result of what Ken has publicly stated was an inadequate internal reporting system. Ken waited until the end of the year to collect and document all of the information and relied on his memory to make sure everything was accounted for.
- In April 2013, a staffer reminded Ken of the trip his family had taken to Williams' Smith Mountain Lake vacation home in 2012.
- Upon being reminded, Ken was surprised at his oversight, and began a review to determine other items he may have overlooked in his filings. From start to finish, this all took about a week, culminating in the filing of Ken's amended disclosures in April.
- At no point in time—prior to the internal review—was Ken aware of any additional gifts or trips that had gone unreported.
- All of Ken's subsequent actions as a result of the review—from holding a news conference to take questions from the media, openly admitting and taking full responsibility for his mistakes, and formally requesting an independent review by Mike Herring—were completely voluntary on his part.

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